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SUBJECT: NETANYAHU'S PROPOSED BUDGET CUTS SPARK POLITICAL
ROW

Classified By: Political Counselor Marc J. Sievers for reasons 1.4 (b),
(d).

11. (C) SUMMARY. Prime Minister Binyamin Netanyahu's cabinet on May 3 approved the 2009-2010 budget framework that seeks to shrink Israel's annual budget deficit in part through cuts in expected expenditures. Details on those cuts were released later in the week, sparking the first major political firestorm within Netanyahu's coalition. Politically, the most controversial proposals included cuts in defense spending, child allowances, and employment benefits, with the latter two issues of parochial concern to the Labor and SHAS parties. Officials within Labor and SHAS fiercely criticized the proposals and hinted at a coalition crisis if the plan moved forward. Ofer Eini, chairman of the Histadrut Trade Union federation, told the Ambassador May 6 that he has been heavily involved in negotiations with Netanyahu's representatives and suggested that he would move to lead Labor out of the government if he were not dealt with seriously. Government officials on May 7 sought to quell the looming political clash, saying they would reexamine all of the proposed cuts, with a view to ensuring that the weaker sectors would not be harmed. The cabinet is expected to vote on the spending cut package on May 12. End Summary.

CABINET APPROVES BUDGET FRAMEWORK

12. (U) On Sunday, May 3, the Government approved the 2009-2010 budget framework by a vote of 20 to 10. The combined deficit forecast for the period 2009-2010 is estimated at about \$21 billion. The framework includes a deficit target of 6% of GDP in 2009 (nearly \$11 billion) and 5.5% of GDP in 2010 (\$10 billion). The government has set a declining deficit path thereafter starting at 3% in 2011, 2% in 2012, 1.5% in 2013 and 1% in 2014. The government also approved a 1.7% increase in expenditures in both 2009 and 2010, with an expenditure target of \$58.5 billion for 2009 and nearly \$60 billion for 2010. In order to meet the deficit target, the Government is calling for a cut in expenditures of \$3.4 billion.

13. (U) Following the Cabinet's approval of the budget framework, Finance Minister Yuval Steinitz said that the government acted responsibly, and emphasized the importance of reducing the deficit long-term. He said that this broadcasts to the markets in Israel and abroad a clear message of the intention of the government to continuing working towards reducing Israel's national debt. The 2009-2010 economic plan does not provide a specific debt/GDP target, but notes that the ultimate aim is to reduce it to 60%.

PROPOSED CUTS TRIGGER POLITICAL ROW

14. (C) The Cabinet vote to approve the framework hinted at future political squabbling, as four SHAS and five Labor Ministers, along with Likud Education Minister and Netanyahu ally Gideon Sa'ar, voted nay. Opposition to proposed budgetary cuts increased dramatically, however, after the Finance Ministry late on May 6 released details on the large package of proposed cuts to cabinet ministers and journalists. The plan would cut spending on a broad array of programs, including welfare, health, education, housing, and benefits for new immigrants and military personnel. Most importantly, in terms of coalition politics, the plan included proposed cuts in defense spending, child allowances, and employment benefits, with cuts in the latter two areas possibly violating coalition agreements signed with Labor and SHAS. Labor party leader and Defense Minister Ehud Barak challenged Netanyahu on May 6 over the proposed cuts in the defense budget, saying that "no sane and responsible policymaker" would seek to cut Israel's defense budget in the face of the Iranian nuclear threat, while Knesset Member Shelli Yechimovich and others on Labor's left wing have

attacked the proposals to cut subsidies to children, the elderly and the handicapped. Meantime, Israeli press reported that SHAS joined Labor in threatening to dismantle the coalition over the cuts.

PART OF A PLOY TO FORCE HISTADRUT CHAIRMAN'S HAND?

15. (C) Histadrut Trade Union Federation head Ofer Eini has been heavily involved in budgetary negotiations with

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Netanyahu's representatives. Eini, whose efforts were pivotal in bringing Labor into the government, views himself as a key power broker. He told the Ambassador on May 6 that his approval of the government's economic plan and budget is the "kosher seal" that will assure Netanyahu has support from Labor and among the workers and pensioners. Eini added that he was scheduled to meet with Barak later in the day and would tell him that if the government does not deal with Eini seriously, he would "pull the plug" and Labor would leave the coalition. Eini felt that Labor would be followed by SHAS, which he said would not be able to accept a budget he has rejected. Eini said he understands that the economic situation is difficult and he is willing to compromise "a lot, but not everything."

16. (C) Some commentators speculate that the proposed steep budget cuts are a ploy to convince Eini to agree to a freeze in planned public sector wage increases (Eini would be loathe to be seen as even partially responsible for facilitating deep spending cuts on those who are already suffering from the economic crisis). Media reports support that assessment, quoting officials who said that the Ministry of Finance would be willing to increase expenditures to the 2.5 percent range if Eini would agree to freeze public sector wage increases (amounting to \$4 billion a year), paving the way to a "package deal" to pull the economy out of crisis.

STEPPING BACK FROM THE "BRINK"

17. (C) By the morning of May 7 the Prime Minister's office was already backpedaling, announcing that there would be no reductions in allowances to Holocaust survivors, the elderly, and the disabled. Nonetheless, coalition members - including members of the PM's Likud Party - and the opposition were unrelenting in their criticism. Later in the day the PM's office had retreated further and said that there would be a reexamination of all the proposed cuts, with a view to ensuring that the "weaker sectors" would not be harmed. The sides have until May 12, when the government is expected to meet to approve the package of cuts, which would allow the budget proposal to begin making its way through the Knesset. Agreement is far from assured, however, and it is also not clear what the new expenditure ceiling will be. Nevertheless, it is likely that at least some of the cuts that were presented this week will not be included in the final version of the economic plan.

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